



Lesson Nine

Different Types of Financial Institutions

Introduction:

This lesson discusses the differences between banks and other financial service institutions.

Objectives:

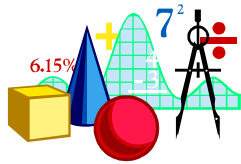
- To familiarize students with the variety of institutions.
- To explain the similarities and differences among those institutions.

Suggested Activities/Homework:

Creative Arts

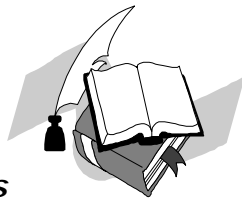


- Design a credit card for kids. What would you call it? What would it look like?
- Ask family members if they use credit cards, what credit cards they have, and why? How frequently do they use them? What are the costs associated with having a credit card (for example, annual fees, interest on unpaid balance, etc.)? (The idea here is not to invade anyone's financial privacy but to become aware of how credit is used around you. Teachers may serve as an example.)
- Identify and list 6-10 different credit cards (for example, bank, phone, department store, gas station, etc.).
- Apply for a credit card by filling out the sample application included in the attachment section of this lesson. (Teachers should review the applications and cite reasons for acceptance and rejection.)



Math

- Start a business. This could include shoveling snow, watering lawns, pairing up with a classmate to run errands for an elderly neighbor, or saving cans for the five cents return. What would you need to run the business? What are the costs? How would you let people know about your business? What would you charge? How long would it take you to make a profit?
- Create a 15% tip card. Using a restaurant menu, choose the items for a meal. What would the tip be on the items you would order?
- Discuss how interest charges increase the cost of a purchase.



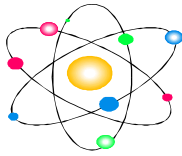
Language Arts

- Use the Yellow Pages to look up different financial institutions. Notice how many institutions there are in your city or town. Make a list of their names.
- Discuss the advantages of credit. How can it make it easier to pay for the things you want or need? What are the disadvantages?
- Discuss the dangers of credit cards and why a good credit report is important.
- Discuss how credit expenses fit in a budget. Are these expenses which need to be planned for?
- Discuss where and how credit cards are used.
- Explain how spending more than we have might get us into financial trouble. How can we avoid over spending?



Social Studies

- Research how your local school store is run. What is the store's budget? How much profit does it make and where does that profit go?
- What are the advantages of paying by cash versus credit cards?



Science

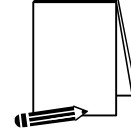
- What are credit cards made of?
- Why do some credit cards have their owner's pictures on them?

Computer



- Design your own student credit card on the computer.

Attachments



- *Different Types of Financial Institutions:* Lesson Material and Glossary.

DIFFERENT TYPES OF FINANCIAL INSTITUTIONS

As we discussed in Lesson Eight, banks serve a wide range of customers. A very large bank might have a division which specializes in business (or commercial) lending. Other banks may specialize in mortgages.

In addition to banks, there are other organizations that offer similar financial services. Let's take a look at the different types of banks and financial institutions in the marketplace today.

Commercial Banks work with both individuals and businesses and offer a variety of products: savings and checking accounts; mortgage, business and student loans; and investment services. Certain banks specialize in business customers only. These banks are sometimes referred to as *wholesale* banks.

Savings Banks are financial institutions that specialize in consumer loans such as mortgage or home improvement loans. They generally offer the same kinds of savings and checking accounts as a commercial bank offers.

Credit Unions are financial organizations where all the customers share a common affiliation. They may work for the same company, go to the same church, or live in the same neighborhood. Unlike commercial banks or savings banks, credit unions are run and managed by their customers. Depending on the size of the credit union, they may offer their members many of the services available at commercial and savings banks such as checking accounts, mortgage loans, ATM cards, or credit cards.

Currency Exchanges (or check cashing stores) differ from commercial banks, savings banks, and credit unions because they do not accept deposits or make loans.

Many people use currency exchanges to cash government checks or obtain money orders. A company or individual might request that a debt be paid by money order if it is uncertain of a person's ability to repay the debt. For this reason, services at currency exchanges may be very expensive.

Currency exchanges earn a profit by charging a fee for most of their services. These fees are generally much higher than comparable services at a commercial bank or credit union, so they are a more expensive option. Currency exchanges are often located in areas where there are no other financial institutions. For people living in those neighborhoods, currency exchanges may provide their only access to various financial services.

GLOSSARY



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| Commercial Bank | Savers and borrowers are brought together in commercial banks. They loan money to individuals and businesses. Depositors earn interest and borrowers pay interest. The bank makes a profit on the difference between the interest it pays for deposits and receives from borrowers. |
| Credit Union | Money deposited is usually loaned only to members. Membership usually consists of people in a given job, trade, industry or other related group. |
| Currency Exchange or Check Cashing Stores | Cashes checks for a fee (generally a percentage of the check). Does not accept deposits or make loans. Customers can carry large amounts of cash on which they do not earn interest. |
| Mortgage | A home loan in which the lending institution holds title to the home until the loan is paid. |
| Savings Bank | An institution that originated with homeowners pooling their money to make housing loans. A savings bank accepts deposits and specializes mostly in home mortgages and other personal loans. |
| Wholesale Bank | A bank which specializes in working with businesses only. |